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MARSHALL'S PRINCIPLES OF ECONOMICS.

I HAVE acceded with pleasure to the request with which the editor of the *Quarterly Journal of Economics* has honored me, a German economist, to contribute a notice of the important economic work of an English colleague, Professor Marshall ; * and it is only by circumstances beyond my control that this notice has been so long delayed. Even now, however, the first volume of Marshall's book, the only one published as yet, is so full and comprehensive, and enters so far into the more refined theory of the subjects it treats, that I must refrain from any discussion of even the more important details, not to mention a thorough discussion of the entire contents of the work. I must limit myself to a consideration of its general scientific character, of its plan, purpose, and method, its place in the literature of our subject. On points of detail I shall state my opinions only when the general discussion may suggest them.

I would begin with some remarks upon the tendencies which now appear in different countries in regard to the scientific treatment of political economy. I am led to these general remarks the more because I write as a German, in an American periodical, on an English treatise. To my non-German fellow-students of economics I take the opportunity to address a word of protest against the belief, which not infrequently is entertained among foreigners, that all German economists approve of the patronizing and pretentious attitude towards English writers, and especially those of the classic school, which is taken by some of the extreme German representatives of the historical

* *Principles of Economics.* By Alfred Marshall, Professor of Political Economy in the University of Cambridge. London: Macmillan & Co.

school. Not only the younger Austrian school, Menger, Böhm-Bawerk, Sax, but many German writers who stand apart from that movement, even the founders and most uncompromising representatives of the older German historical school, Roscher and Knies, with scholars like the late Professor Nasse, and many among the living,— all would wish not to be judged abroad by the narrow opinions of the younger historical school, more particularly not by the opinions of the scientific head of that school, Professor Schmoller. It is true that most of us in Germany are in so far members of the historical school that we point to the need of induction side by side with deduction; that we warn against hasty generalization, against exclusive reasoning on the basis of economic self-interest; that in practical problems we have no faith in any absolute solutions, and insist upon the principle of relativity. But, like myself, many German scholars, old and young, even those whose own researches are directed mainly to economic history, believe it to be false and narrow to go to the other extreme, and to fling aside deduction from assumed motives, and especially from the motive of self-interest. We would not limit political economy to the mere presentation of the various historic stages in the application of labor, nor do away with all abstract thought or abstract statement. We do not assume that tone of condescending judgment on the works of Adam Smith, Malthus, Mill, Ricardo and his school, especially not that tone of complete condemnation of the work of Ricardo. But few among German authors adopt tactics of this sort, or accept those verdicts of "scholasticism" and "dogmatism" on all writings not concerned with the one thing needful, economic history. Those who do adopt this tone not infrequently show that they have not sufficiently studied, or else have not rightly understood, the works of the masters whom they despise, more particularly Ricardo. For this reason, and from their inability or indisposition to enter into abstract reason-

ing, they are not competent, for all their pretentious attitude, to reach a just and impartial conclusion. Their own positive contributions in the domain of theory itself are either entirely wanting or else, though involved in a mist of "inductive" research, finally reach the same cardinal doctrines that were developed by the British economists and by those older German masters who built on them, like Hermann and Thünen. Logic is the weak side of the extremists of the younger school. But it is not alone by foreigners that this weakness is perceived. I can give the assurance that numerous German colleagues join me in adopting that mediating attitude in regard to scope and method of political economy which is taken, for example, in the recent excellent book of Keynes, on *The Scope and Method of Political Economy*. Outside of the small circle of the very narrow historical economists, his position is almost universally accepted. For myself, I agree with Keynes almost throughout, and therefore can testify to my hearty appreciation of the great value of Marshall's volume; for in the matter of method and scope Marshall also takes this mediating attitude, even though in the present volume, which is essentially theoretic, he proceeds chiefly by way of deduction, as is demanded by the nature of the topics treated. To a very large extent he follows in the paths of Ricardo, though with caution and care and all necessary qualifications.

A few German writers of the younger historical school will doubtless dispose of Marshall's book with ease. They will condemn it as simply a revival of deductive dogmatism in the style of Ricardo: perhaps they will not even trouble themselves to undertake its careful examination. My attitude towards the book is a very different and thoroughly appreciative one, even though I cannot value as highly as does Professor Marshall the use of diagrams and of algebraic formulæ, and though I should differ with him on not a few single points. More particularly I agree

with Professor Marshall in the fundamental opinions which he sets forth in the first pages of the preface, and also in those chapters of the first book (chapters four to seven) which treat of the growth of economic science, of the nature of economic laws, and of economic motives. The same opinions are stated admirably in the various notes, more particularly the notes on Ricardo and some of his more important doctrines. Marshall says with truth that even those modern doctrines which on the surface seem quite opposed to Ricardo's "involve no real breach of continuity in the development of the science"; that they "have supplemented the older, have extended, developed, and sometimes corrected them, but very seldom have subverted them."* He gives due weight to the objection that it is not possible to reason with the bare economic man, still less to reason with the bare city man, but nevertheless reaches the conclusion, which seems to me also to be the sound one, that "the theory of normal value," with qualifications that are great, but can be stated with sufficient exactness, "is applicable to the actions of the unbusiness-like classes in the same way, though not with the same precision of detail, as to those of the merchant or banker."† He puts the needed emphasis on the importance of the element of time in investigating the connection between price and cost of production, and shows that those vulgar objections to the validity of the law of cost of production, which we meet among the opponents of the Ricardian method, can be disposed of by due consideration of this element of time.

I have taken special pleasure in Marshall's defence of Ricardo. While admitting the need of Ricardo's assumptions and statements, Marshall yet defends him against the attacks which have been made upon this, the first master of the deductive method, not only by the laymen in economics, but even by professional economists, such as

* *Preface*, p. 5.

† *Ibid.*, p. 7.

Ingram in England. So in regard to Ricardo's law of rent, which, when supplemented by Thünen's, seems to me an unshaken and unshakable part of the foundation of economic theory, standing as it does in complete accord with obvious facts of industry. In the discussion of Carey's attacks on Ricardo, Marshall seems to me to make almost too many concessions to Carey; though he remarks with truth that many of the facts which Carey adduces are, when rightly understood, only illustrations and confirmations of Ricardo's law.* It was a source of real gratification to me to read the passages which discuss the law of cost of production, and dispose of the objections raised by some German writers, more particularly by Adolph Held, who, here as in other places, has neither studied Ricardo sufficiently nor understood him rightly. I concur entirely in Marshall's conclusion that he cannot agree with those who believe that Ricardo's doctrine of the bearing of cost of production on value must be swept away. In the important note at page 529, Marshall says (the Italics are mine) that "the purpose of the present note is to show cause for *not* accepting this opinion, and for holding on the contrary that the foundations of the theory, as they were left by Ricardo, remain intact; that much has been added to them, and that very much has been built upon them, but that *little has been taken from them.*" So he defends Ricardo against the attacks of Jevons. He admits the importance of the theory of value propounded by that writer, and that of the essentially similar theory of the Austrian school (Menger, Böhm-Bawerk) in regard to marginal or final utility, but nevertheless insists, rightly as it seems to me, on the dominant importance of the law of cost of production, especially in reference to "supply-value."

Further, I agree with Marshall that the so-called iron law of wages cannot be traced to Ricardo, and that it is a gross injustice to Ricardo to set him up as the type of the capi-

* Pages 213-216.

talistic enemy of the laborers.* This attitude has been taken by a few German economists, and Held especially has fallen into errors which Mr. Gonner has sufficiently disposed of in the pages of this *Journal*.† But these are admitted to be errors in Germany as well. I have myself defended Ricardo against attacks of this sort; and Professor Cohn has done the same, more particularly against Held's attacks. John Stuart Mill is also defended by Marshall against the mistaken or ignorant imputations of recent economists. Indeed, I find myself in hearty accord with almost everything which Professor Marshall says in regard to the tendencies and methods of individual authors. Such agreement among economists of different nationalities, whose thought has developed in entire independence, is doubtless much more general than one would expect if attention were paid only to the extremists. Doubtless, too, there would be general agreement that the value of any particular method is only relative; impartial students would admit the value of every method applicable to our subject. This more catholic attitude must lead to greater justice in recognizing the value of work done by authors of different methods, and to greater modesty in regard to one's own achievements and the achievements of those who happen to use the methods and follow the tendencies congenial to one's self. It has given me pleasure to find in Marshall an author who is everywhere just and appreciative to those whose methods and labors are different from his own.

Among other things the non-English reader takes a special satisfaction in the appreciation of the professional work done in other countries, as, for example, in recent years in Germany and in America. I am aware that we German scholars have, in recent years, been sometimes accused of excessive pretensions, of having lost our former willingness to estimate at its true value work done in other

* Page 553.

† *Quarterly Journal of Economics*, vol. iv. pp. 284-290.

countries. German economists more particularly have incurred this reproach, and I admit sometimes with justice. Nevertheless, I would beg not to make us all responsible for the excesses of some of the younger German historical economists, and for the tone which they show, for example, in their reviews of foreign works whose tendency differs from their own. This tone is condemned by a wide circle in our own country. Indeed, it shows itself not only in the discussion of works of foreign authors, but also in that of German authors who follow methods and tendencies which meet with the one-sided condemnation of the school. The truth is that political economy almost from its beginning has been a truly international science, in whose development the lead has been taken first by one, then by another, of the great civilized nations. We in Germany do not forget what we owe to the Italians, the French, the English, nor that almost everywhere we stand upon their shoulders. If in the last generation we have paid back something of the debt which we owe to other nations, I hope it may not be generally supposed that we overestimate the worth of these payments, as might sometimes be supposed from the utterances of our younger historical economists. For myself, recent English and American theoretic, so-called dogmatic contributions—at this moment more particularly the writings of Marshall, Keynes, and others—have convinced me that since the days of Hermann, Thünen, and Rau, we have unduly neglected certain aspects of the subject, and can again learn much from foreign writers. But even in our own ranks abundant provision has already been made that the narrow attitude of the historical school shall find its opponents. The young and active Austrian school has begun a very pretty reaction, which indeed has not always kept within due bounds, and has sometimes failed to give just appreciation to the value and the achievements of the historical school. Professor Marshall may rest assured

that his impartial and appreciative judgment of other writers, other tendencies, of the work of other countries, will be considered by German writers an example deserving of imitation.

Marshall's book is the first volume of a treatise laid out on a large scale, which must include at least one volume more of the same size. Final judgment upon it, therefore, cannot yet be pronounced. In the plan and arrangement of the first volume, it differs in several respects from the common procedure of English writers, and indeed from that of writers in other languages. In the main, I should concur in Marshall's systematization, except in regard to certain points on which, as I shall presently explain, a more comprehensive treatment seems to me desirable. The volume contains chiefly that which we in Germany call general or theoretic political economy, and holds in the main to the English traditions in excluding the more special or practical aspects of the subject. To me it seems desirable that this treatment should be supplemented by more of the practical matter. No doubt the future volume or volumes will bring the needed additional matter on money, credit, foreign trade, but even then presumably in part only, since stress will doubtless be laid chiefly upon the theoretic aspects of the questions. It is my belief that the scope of theoretic economics can be advantageously widened, on the German model, by a systematic discussion of economic policy in regard to agriculture, trade, and industry. Further, the discussion of questions of policy in regard to money, coinage, credit, banks, insurance, transportation, should find a place, with some detailed consideration of historical development, of statistics, and of legislation, and with a comparison of the conditions of different countries. Theory and policy in finance should receive a similar treatment. It is only in this way that theoretic or abstract political economy receives the needed enlargement by the presentation of concrete mat-

ter. The reproach urged against the usual treatment of the subject by English economists, that it yields only abstract results and vague generalizations, will then disappear. Not "practical" political economy alone, such as the younger German historical school is disposed to content itself with, nor theoretic political economy alone, such as is usually offered in England, but the two together form political economy as a science. This mode of treating the subject, which has been common in Germany since the days of Rau, deserves more general imitation in foreign countries.

Marshall's theoretic discussion follows, as a rule, the lines of the mathematical treatment of Cournot and others, more particularly in his discussion of the doctrines of value, cost, exchange, and distribution. I would not deny that this mode of treating the subject has its justification, nor that there are advantages in the use of diagrams and of the formulæ of the differential calculus. But I do not believe that this mode of treating the subject has an independent value of its own for solving our problems. Indeed, Marshall himself admits as much. He has used diagrams and formulæ only for purposes of illustration and for greater precision of statement. He says, with emphasis, that his reasoning is independent of these aids, which, indeed, have served him mainly for clarifying his own thought.* He therefore excludes the diagrams and formulæ entirely from the text, and relegates them to footnotes and to the appendix. Whether it was necessary to make use of them even to this extent in a work like the present, I would leave undecided.

This first volume is divided into six books, some of which, as the nature of the subject makes inevitable, are much longer than others.

The first book, of eight chapters, gives a preliminary survey. In the introductory chapter we find, among

* *Preface*, p. 11; see also p. 148.

others, the proposition that the main characteristic of modern industry is not free competition, but free industry and enterprise,—a distinction which I am not disposed entirely to accept. In the second and third chapters, which treat of the growth of free industry and enterprise with particular reference to England, and in which the great historic phases of growth are admirably sketched, I have been struck by a consideration which has indeed forced itself upon me throughout the book. Marshall, like many other English writers, seems to me not to lay sufficient stress upon the favorable natural conditions in which its insular position has placed his country. In the centuries since the discovery of America, the situation of the British Islands, as compared with that of the continental countries, and especially Germany and Italy, seems to me to have been a factor of prime importance in bringing about the more prosperous economic development of Great Britain. Not an enemy appeared in the country: military expenditure absorbed a very much less proportion of its strength, and yet it was sufficiently protected. With political resources of no great strength, the country was able to develop its enormous colonial possessions; while the continent, and Germany in particular, was in a perpetual state of war. Consider what Germany, France, and Italy have suffered since the days of the Reformation, and how great have been the burdens on Germany because of its unfortunate geographical position, between bitter enemies like the Russians and the French! England knew no such evils. In our own day it dares not permit a tunnel to France under the Channel, for fear of the red-trousered gentry. To its geographical position and natural security England owes more than to the undeniable energy of the Anglo-Saxon race. English authors should not fail to remember this point. Again, I am not quite able to agree with Professor Marshall in what he says of German business men as compared with Englishmen.*

* At p. 249.

Indeed, he finds occasion to give praise in several places to the German merchant, who, though supported by the political resources of his country much less than the British merchant, yet has been able to attain a dominant position in foreign countries. Surely, this shows that the Germans do not lack the special virtues of private industry,—its vigor, its elasticity, its resource. A great captain of industry like Krupp has few rivals even in England. On the other hand, I am unable, judging from our own experience, to concur in the praise bestowed on the German Jew, whether in economic theory or in industry. In the intellectual field, as in others, the Jew is much more apt to be a middleman than an original producer; and in German industrial life his activity is generally harmful. So in theoretic socialism: Lassalle, for example, was not original, but borrowed, as he himself confesses, the best of his thought from the German Rodbertus. On the other hand, I concur fully in what Marshall says of German political economy, and of the one-sided development it has sometimes showed: the praise which he gives to the “brilliant genius” of Hermann is fully deserved, although it is just now the fashion in Germany not to estimate at his just value this incisive thinker.

In chapters five, six, and seven of the first book, economic method, economic motives, and the nature of economic law are discussed in a manner which seems to me in all essentials entirely sound. My criticism would be that these chapters were too short, when compared with the voluminous treatment of other topics. It is true that the methods of induction and deduction, which Marshall rightly concludes to be mutually dependent on each other, are not peculiar to our subject, but are the common property of all sciences. Nevertheless, the mode of their application in different sciences must be different. But on this topic Keynes's book is an excellent supplement to Marshall's. I agree entirely in what is said of Comte;

namely, that he was right in emphasizing the unity of social phenomena, but wrong in rejecting the separate study of certain classes of these phenomena. The younger German historical school is guilty of confused thinking upon this point also; and its extreme opposition to the abstract political economy of writers like Ricardo is in part a consequence of this confusion. I should be disposed to make some criticisms of the discussion of economic motives and economic laws, but they would carry me too far. In the main, I agree with the author; as, for example, in the important note correcting some misconceptions of German economists, and in another important passage* to the effect that economic laws are not more hypothetical than those of the physical sciences. Among some of the hot-heads of the younger German school it has come to be the tone no longer to speak of "economic laws" at all, that being unscientific!

The second book considers some "fundamental notions," and in part follows closely German writers, more particularly Hermann. Among more recent German writers the works of Professor Neumann of Tübingen might have been used with advantage. It would again carry me too far to set forth wherein I differ with the author in this critical field. I may mention that it seems to me expedient, and sound in principle, to undertake a connected discussion of these questions of terminology, differing therein with the younger German historical school, which would entirely exclude such discussions. My main criticism would be a consequence of the stimulus which I have received in this matter, as in many others, from Rodbertus, and which shows itself in part of my own *Grundlegung*. It is that in the whole series of concepts we must distinguish between the purely economic point of view — the logical or abstract point of view — and the historical and legal point of view. I think such a distinction of funda-

* Pages 80, 90.

mental importance for the solution of practical and theoretical controversies; for example, in the discussion of the whole subject of socialism. Marshall touches the point but briefly.* An old mistake seems to me to recur in Marshall, in the wrong definition of the term "net income,"—a mistake which results partly from the failure to distinguish sufficiently between the industry of the people as a whole and the industry of any private individual. I should be disposed to hold fast to what Hermann, Schäffle, and Schmoller have insisted on, that "income" is coextensive with what is ordinarily called "net income," and that the net produce or income of any social group (for instance, that of the community as a whole) is *not* to be ascertained by deducting from the gross produce, in addition to what is necessary for replacement of capital, the expenditure which is necessary to maintain the numbers and efficiency of the population. The expenditure necessary for maintaining the working population is in truth a most important part of the net income of the community. What the individual business manager pays out for wages and interest forms part of his expenses, but for the community as a whole these expenditures represent part of its income.†

Marshall's third book begins at once the separate discussion of demand, production, and similar topics of detail. I confess that I find here the same gaps which seem to me to exist in the writings of English economists and in those of the older writers of Germany and the continent. To my mind, a series of fundamental discussions should be inserted at this point. There should be a consideration of industry in general (*Wirtschaft*), of the industry of a given community, of population and industry in their mutually dependent relations, of the organization of industry, the State, and the legal foundations which underlie indus-

* Page 136.

† See my *Grundlegung*, second edition, §§ 83, 84.

trial life, slavery, freedom of person, the law of property.* In Marshall's book, as in that of most previous systematic writers, discussions of this sort are either entirely omitted or else not put in the proper place. The latter mistake is made most frequently with the doctrine of population. I made it myself in former years in the plan of my University lectures. Marshall enters on the topic in his fourth book (on "Production or Supply"), and, I may note, treats it admirably, with wide use of practical material. The discussion there runs through three chapters, under the title "Supply of Labor." No doubt the doctrine of population is important for the discussion of the supply of labor; yet the point of view seems to me wrong. It is open to the objection, so often brought against the older mode of treating the subject, that the laborer is regarded as a means for production, not production as a means for the laborer. Human life and human development are, after all, the objects of all production, even though man as a laborer, on the other hand, is a means for production. The first point of view should be the more prominent, and the doctrine of population should therefore be given a dominant position in the discussion of fundamental principles. It should be part of the basis of the entire doctrine of production and distribution, considered in its relation to the interest of the community both for the production and for the distribution of wealth. Then

*These discussions, and the closely connected discussions of fundamental notions, I have gathered in my own economic treatise, under the title of *Grundlegung*. But this part of the work, even in the second edition of 1879, has still gaps and mistakes in arrangement, which I propose to remedy in the third edition, now in hand. More particularly, as my opinions now stand, it seems to me desirable at the very beginning to enter more fully into the consideration of human nature, its impulses and motives, and to do this more in detail than Marshall has done it in the sixth chapter of his first book. Then, in proper order, will come the discussion of method and plan, and the more complete elucidation of the doctrine of population and of the relation between population and industry. The absence of this last topic is the most conspicuous fault of my work as it now stands. I propose to remedy it by paragraphs inserted between the present chapters on Industry and the Organization of Industry.

may come discussions of demand and of income, considered from the point of view of distribution, such as I have endeavored to contribute in the second edition of my *Grundlegung* (pp. 134-480).

Barring a few incidental remarks, Marshall says nothing of the organization of industry, or of law and the legal foundations of society. Discussions of these topics, as of the doctrine of population, seem to me to belong with special propriety in the domain of theoretic political economy. They prepare a foundation for everything that follows, including the laws of production and distribution. Like most English economists, Marshall treats private industry, and that organization of industry which rests on private property, as matters of course, given by "nature," so to speak; treating the institution of property as something absolute or purely economic, and not as something which has developed by historic growth. To my mind, as economic science stands now, this treatment no longer suffices. The stimulus given by the historical school has done something to make a change necessary; still more has it been made necessary by the attacks of socialism. As Professor Marshall treats it, political economy is still limited to the investigation of production, exchange, and distribution under the system of private industry and of free competition. Too little attention is paid to the historic development of industry, and to those developments, already foreshadowed for the future, beyond the system of simple free exchange and private industry,—changes not towards socialism, but towards something which resembles socialism more closely than it does the present *régime*. Perhaps the Englishman or American will object that this is the point of view of the German State socialist, who is used to government intervention and disposed to favor it, is habituated to State railways and other forms of public enterprise. Perhaps; but at least it is the conviction of a German economist who has found in British and American

experience, under the system of free industry and enterprise, the strongest arguments in favor of his position.

In his fourth, fifth, sixth, and seventh books, Marshall discusses the doctrines of production or supply, the equilibrium of demand and supply, cost of production, and value, or distribution and exchange. These books take up much the greater part of the volume, running from page 147 to the close; they are rich in thought and clear in analysis, and enter far into the more refined details of the subject. The general treatment, excellent throughout, is to my mind most valuable in two points. First, it sets forth the true relation between the theory of marginal or final utility, as developed by Jevons, Menger, and Böhm-Bawerk in its bearing on "demand-value," and the doctrine of cost of production in its bearing on "supply-value." Secondly, it maintains, though it advances and refines, the doctrine of cost of production itself. I am not disposed, it is true, to attribute to the doctrine of final utility the importance which is ascribed to it by its authors. In many respects, I agree with what Dietzel says in his attack on it in Conrad's *Jahrbücher* for 1890; though Dietzel again seems to me to go too far. Marshall seems to me to hit the just mean. The importance of the doctrine for the analysis of demand is recognized, and it is admitted that, in the usual statements of the doctrine of cost of production, the nature of demand has not been sufficiently considered. But, on the other hand, so far as supply and the final adjustment of price are concerned, the dominant importance of the doctrine of cost of production is maintained. The influence of cost of production, the mode in which it makes itself felt, the analysis of its detailed working in practical affairs, are treated with much acuteness, and to my mind with entire conformity to the facts. In the book on "Demand or Consumption" there are also acute details, such as, for example, the analysis of consumer's

rent.* The book on "Production or Supply" is long, and naturally contains matter of a more concrete sort. The law of diminishing returns is stated admirably. This is one of the laws which the German historical economists occasionally treat as an antiquated remnant of the scholastic and dogmatic treatment of early writers. In the controversy between Ricardo and Carey, Marshall seems to me again to hit the just mean; though, as mentioned above, I am disposed to concede less weight to Carey's objections than Marshall does. So, in the discussion of the Malthusian doctrine, I should concede less to the opponents of Malthus; though Marshall holds fast to the fundamental points. The suggestion that fecundity will decline with increasing activity of nerve and brain seems to be not so well supported by the evidence as Marshall assumes.†

In the chapter on "The Growth of Wealth," the abstinence theory is replaced by a theory of "waiting." This is an improvement; yet even this solution of the problem has not quite satisfied me. Here, again, I should be disposed to bring out more sharply the distinction between individual capital and property, and social capital and property, and to carry the analysis of the rise and accumulation of property to its simplest and decisive elements, considering both the purely economic factors and those which rest upon historical and legal conditions. There is much excellent and pertinent matter in the extended treatment of industrial organization, with its concluding chapter upon the law of increasing as contrasted with that of diminishing returns. I confess that I still have doubts in regard to what is said,‡ in the discussion of the forces

* At p. 175.

† At p. 233. The remark, made incidentally, at p. 246, in a discussion of nervous strength, about the performances of a Berlin University corps during the war of 1870-71, must rest upon some mistake. There was no such corps.

‡ At p. 378.

counteracting the law of diminishing returns, of the certainty of securing a supply of food by importation. How far it may be possible to assure an adequate supply in this way must depend on the peaceful or hostile disposition of foreign nations, and not least on their disposition to accept manufactured products in return for food. The conditions under which this exchange can be effected, and the state of international competition, must affect the efficacy of the counteracting force. Can Great Britain safely be so optimistic in this regard, under the conditions which prevail at the close of the nineteenth century?

In the fifth book, the equilibrium of demand and supply is considered: in the sixth, cost of production is again taken up. The author offers much that is new, or has not been sufficiently considered hitherto, especially in the more careful consideration of the element of time. The final result is not so much a correction as a better and more refined statement of the doctrine of cost of production in its relation to price. Some of the vulgar objections—which, though usually superficial are yet brought forward not only by the so-called practical men, but by some of the less acute writers on theory—are sufficiently disposed of. Of most importance are the discussions of "normal" demand and supply and their equilibrium. Valuable light is often thrown in these discussions upon practical questions, as, for example, in the chapter upon the theory of monopolies. The doctrine of rent and of *quasi-rent* is carried to farther details, Ricardo's doctrine being maintained, but extended. In these chapters the point of view is often similar to that of Mangoldt and Schäffle. I agree with Marshall almost everywhere. He has distinctly extended the more refined theory of these important and indeed decisive questions. His treatment is a telling example of what can be achieved by his method of speculative deduction,—the adequate solution of problems which, partly from their very nature, and partly be-

cause of the unmanageable mass of the inductive material, cannot be solved by the method of historical and statistical induction. This part of the book, which offers much that is new, is brought to a close by the admirable, just, and convincing note on Ricardo's doctrine of cost of production, to which I have already referred.

The volume ends with a seventh book on "Value, or Distribution and Exchange," which runs through two hundred pages. It begins with several chapters containing a preliminary survey, and then enters on the successive discussion of Wages, Interest, Earnings of Management, and Rent. These topics are treated by considering in detail demand and supply in relation to each of them. The separation of interest from earnings of management, and of the capitalist from the manager, is here brought out more sharply than has been customary in English writings, following in that regard the German example. The result is that many topics are better explained and more clearly set forth. I am unable to accept the conception of the "national dividend," very much in the sense in which the Germans speak of national income or clear income;* but this difference of opinion is connected with the whole topic of the place of wages in the national income, of which I have already spoken. Of particular importance is the note on the wages-fund theory and on Mill's fundamental propositions on capital.† I agree with Marshall when he says that the whole question whether the wages-fund theory be true or not is largely a question of nomenclature. As against Thornton, George, and the apostles of trades-unions, I believe that the wages-fund theory, rightly stated and rightly understood, is at bottom true; but I should add the qualification, to which Hermann called attention, that the payments by those who demand the finished goods form the source from which, in the long run, the capitalists are enabled to employ labor, or to maintain a demand for labor, from their wages fund,—

* Page 560.

† Page 567.

that is, from that part of their capital which, as matters stand at any given moment, must be devoted to the payment of wages. The falsity of the wages-fund theory lies only in that version of it in which the amount of the fund, and so of total wages, is said to depend simply upon the good will of the capitalist and manager, and is stated as an absolutely fixed and rigid quantity. The whole of this seventh book gives further confirmation to what I said in discussing the fifth and sixth books, in regard to the value and success of the author's method. On some points I might have occasion to enter into criticism; but space forbids.

The concluding chapter, which treats of the Influence of Progress upon Value, seems to be in part unduly optimistic. We may grant, unreservedly, that recent economic changes have brought about an absolute improvement in the condition of the masses; but is this true of their relative condition? Is there not a danger, especially in England, and from the very working of free competition, that what is sometimes called the pyramid of distribution may be changed to that deformed shape which Rodbertus predicted,—a great head standing for the upper class, a puny neck for the middle class, a swollen body for the lower class? But with this question I recur to that social conception of even the strictly theoretic parts of political economy which Marshall and most of his countrymen doubtless would be disposed to reject.

In sum, this first volume establishes in just and admirable fashion the continuity between classical English political economy and the science as it must stand to satisfy the demands of the present. It marks no revolution, but a progress, made with due regard to every advance in the science. Let us hope that the second volume will follow at an early date.

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